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SUBJECT: CYPRUS: GOC NEGATIVE REACTION TO INCSR

REF: Demetriou-Silensky e-mail dated December 22, 2008

11. (U) This cable is sensitive but unclassified. Please protect accordingly. ACTION REQUEST CONTAINED IN PARA. 5.

12. (SBU) On March 27, Embassy Econ Officer and Econ Specialist met with Eva Papakyriacou, Head of the local Financial Intelligence Unit (known as MOKAS) and Michalis Stylianou, Senior Officer, Bank Supervision and Regulation Division, Central Bank of Cyprus to discuss the GOC's reaction to the published text of the International Narcotics Control Strategy Report (INCSR), Part II, concerning money laundering. The meeting was called at their request, to protest various points in the INCSR report. Papakyriacou confided that the GOC felt strongly enough about these issues (especially, the reference to the "TRNC"), so as to consider, initially, making these points "more formally." Papakyriacou convinced the rest of the GOC apparatus to downplay its reaction, and provide us with more informal feedback via this meeting.

13. (SBU) Following is a list of the issues they raised with us (reference to contentious INCSR passage first, followed by GOC comment):

-- Second para of INCSR:

QUOTE:

Although Cyprus has made progress from its days as an offshore haven for tax evasion, money laundering and other types of criminal financial activity, Cyprus remains vulnerable to significant money laundering and illicit finance activities.

END QUOTE.

Papakyriakou noted that Cyprus was never an offshore haven for tax evasion (typically, a place with zero tax rate). Even in the days of extensive dealings with the Milosevic regime in former the Yugoslavia, the issue was money laundering, not acting as a tax haven. Also, the GOC does not agree with the broad-brush statement that it remains vulnerable to significant money laundering and illicit finance activities and asked if the USG has any specific examples of these problems.

-- Third para of INCSR:

QUOTE:

Cyprus' historic ties to organized criminal elements and large number of shell companies . . .

END QUOTE.

The GOC strongly disagrees with the conflation of holding companies "like Delaware" and implied international organized crime groups operating here. Again, our interlocutors requested specific examples of USG concerns.

-- Sixth para of INCSR:

QUOTE:

The high number of nonresident businesses raises concern about money laundering due to difficulties in monitoring their activities.

END QUOTE.

The GOC does not recognize that there are any such difficulties. Cyprus, unlike places like the British Virgin Islands, has a system in place allowing full access to information on the beneficial owners of each and every registered company.

-- Para eight of INCSR:

QUOTE:

However, regulatory oversight of entities such as lawyers and accountants, who are involved in corporate registration and the collection of beneficial ownership information, remains low.

END QUOTE.

Accountants and lawyers should not be lumped together in this context. By the GOC's own reckoning, this comment holds true for lawyers but not so for accountants.

-- Para 13 of INCSR:

QUOTE:

While the recent AML law addresses many of the previously identified gaps in the Cyprus' AML/CTF regime, the effectiveness of these measures is unknown, as some provisions have not been fully implemented or tested through the detection, investigation and prosecution of money laundering cases.

END QUOTE.

The GOC questions the necessity for such a comment. It also believes strongly that the comment casts unnecessary doubts on the effectiveness of the GOC's AML system.

-- Para 17 of INCSR (end):

QUOTE:

Cypriot law partially protects reporting individuals with respect to their cooperation with law enforcement but does not clearly absolve a reporting institution or its personnel from complete criminal or civil liability. Banks must retain client identification data, transaction records, and business correspondence for five years.

END QUOTE.

This is no longer true. Since the end of 2007, the GOC has enacted legislation addressing this problem quite effectively - a point acknowledged by MONEYVAL's Second Progress Report on Cyprus (released January 9, 2009, reference page 20, section 26/2/a)

-- Para 24 of INCSR:

QUOTE:

Despite the size of the financial sector and the seemingly comprehensive nature of the AML/CTF legislative regime, the number of reports, investigations and convictions of money laundering cases in Cyprus remains surprisingly low. Furthermore, suspicious transaction reporting from the nonfinancial sector, including lawyers and accountants, also remains low.

END QUOTE:

The GOC acknowledges that this is a problem, which they helped create. The figures on reports, investigations and convictions cited in the report refer only to MOKAS. Up until recently, the Cyprus Police did not keep or share such figures with MOKAS, hence

the reporting deficit. Currently, however, the police has improved its statistics collection method and agreed to share this information with MOKAS to give a more accurate, cumulative picture of the situation. The updated numbers are presented analytically in Moneyval's Second Progress Report (page 42).

-- Para 29 of INCSR:

QUOTE:

Cyprus should consider enacting provisions that allow for civil forfeiture of assets. Cyprus should ratify the UN Convention against Corruption.

END QUOTE.

This has been a long-standing USG request, and the GOC responds in the same way every year: noting that in Cypriot jurisprudence, civil forfeiture is not/not an international standard, nor a FATF requirement. The only country in the EU following this practice is Ireland. Furthermore, such policy would be against Cyprus' Constitution. In short, it is a pointless comment, from the GOC perspective.

¶4. (SBU) Finally, Papakyriacou thanked us for our timely intervention through the Cyprus Desk, two weeks ago, resulting in changing the terminology used to refer to the northern part of the island. The revised INCSR 2009 text already posted on the Internet (Appendix, page 58), now lists the northern part of Cyprus as "Area Administered by Turkish Cypriots," as opposed to the "offensive" (from the GOC viewpoint) and unrecognized "TRNC."

¶5. (SBU) Comment. Post values the excellent relationship it enjoys with the local FIU. Furthermore, cooperation between MOKAS and FinCEN reportedly remains exemplary. Most of the points that raised the Cypriots' hackles refer to language added to Post's initial text by Washington. To provide the latest information, we request the opportunity to review a Track-Changes version of the INCSR draft we submit to Washington before it becomes final. End Comment

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